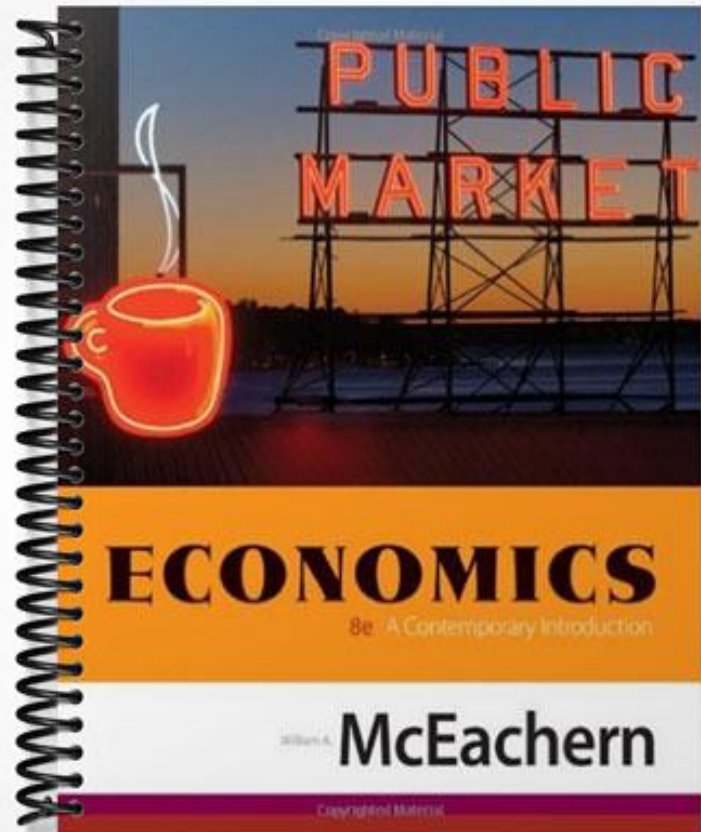


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**ECONOMICS**

8e A Contemporary Introduction

William A. **McEachern**

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## Chapter 1—The Art and Science of Economic Analysis

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### MULTIPLE CHOICE

1. Economics is best defined as the study of how individuals decide to use limited resources in an attempt to satisfy unlimited wants.

- a. True
- b. False

ANS: A                      PTS: 1                      DIF: Easy                      NAT: Analytic

LOC: The study and definitions of economics

TOP: The Economic Problem: Scarce Resources, Unlimited Wants

2. Economics studies how decision makers use scarce resources to satisfy unlimited wants.

- a. True
- b. False

ANS: A                      PTS: 1                      DIF: Easy                      NAT: Analytic

LOC: The study and definitions of economics

TOP: The Economic Problem: Scarce Resources, Unlimited Wants

3. In economics, money is an example of capital.

- a. True
- b. False

ANS: B                      PTS: 1                      DIF: Hard                      NAT: Analytic

LOC: The study and definitions of economics

TOP: The Economic Problem: Scarce Resources, Unlimited Wants

4. Profit is the payment received by resource owners for the use of their capital.

- a. True
- b. False

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Analytic

LOC: The study and definitions of economics

TOP: The Economic Problem: Scarce Resources, Unlimited Wants

5. Rent is the payment received by resource owners for the use of their natural resources.

- a. True
- b. False

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Analytic

LOC: The study and definitions of economics

TOP: The Economic Problem: Scarce Resources, Unlimited Wants

6. The fact that people have unlimited wants means that

- a. they always want more of at least one good
- b. each person has an unlimited desire for every good
- c. labor unions demand wage increases
- d. selfish people are not concerned about others
- e. people buy goods without regard to what they can afford

ANS: A                      PTS: 1                      DIF: Easy                      NAT: Reflective Thinking

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Economic Problem: Scarce Resources, Unlimited Wants

7. The problem of scarce resources
- means that in some cities there are not enough jobs
  - could be solved if the unemployment rate fell
  - is that there are not enough resources to satisfy people's unlimited wants
  - is that resources are used inefficiently
  - can be solved by lowering taxes

ANS: C                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

8. Scarcity is best defined as
- unlimited resources
  - a shortage -- when buyers cannot obtain the goods they want
  - a surplus -- when sellers cannot sell the goods they produce
  - insufficient resources to satisfy unlimited wants
  - the private ownership of society's resources

ANS: D                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

9. Scarcity
- exists because people have wants that are unlimited relative to the availability of resources to satisfy those wants
  - applies when a resource is not freely available
  - means that each society and each individual must make choices
  - exists in all societies
  - all of the above are true

ANS: E                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

10. Because people's wants are unlimited but resources are scarce,
- only the rich get everything they want
  - choices must be made
  - there will be more services produced than goods
  - people search for spiritual fulfillment rather than material fulfillment
  - poor people never get anything they want

ANS: B                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

11. Which of the following statements regarding the basic economic problem of scarcity is correct?
- The problem only exists in countries that are not highly industrialized.
  - The problem is likely to disappear as production increases.
  - The problem is sure to disappear as technology improves.
  - The problem will exist as long as resources are available in limited amounts.
  - The problem will disappear as a person's income falls.

ANS: D                      PTS: 1                      DIF: Easy                      NAT: Analytic

LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

12. Some individuals or families can become completely saturated with a service such as television. This suggests that
- wants are limited
  - desires for a single commodity can be satisfied but then the focus will switch to other goods and services
  - a highly productive economy may someday be able to satisfy all human desires
  - resources are not truly fixed in supply as we generally assume
  - scarcity does not exist

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

13. Economics is best defined as the study of how
- individuals decide to use scarce resources in an attempt to satisfy their unlimited wants
  - to make money
  - the government should deal with unemployment and inflation
  - to eliminate the problem of scarce resources
  - to run a business

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: The study and definitions of economics  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

14. Economics is the study of
- how to get rich by playing the stock market
  - the best ways to reduce people's wants, given the scarcity of resources
  - how rational government officials determine what goods should be produced
  - money and why it is good
  - how people use limited resources to try to satisfy unlimited wants

ANS: E                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

15. Which of the following is the best definition of economics?
- An investigation of the quantities and prices of the various goods produced by the nations of the world.
  - A study of why inflation and unemployment periodically plague the U.S. economy.
  - An analysis of how individuals and societies deal with the problem of scarcity.
  - An examination of the role that money plays in the economy.
  - A study of how goods and services are distributed throughout the world.

ANS: C                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

16. Economics is the study of
- how the human race differs from other species
  - how individuals amass personal fortunes in the stock market
  - how individuals and nations deal with the problem of scarcity
  - role that money plays in the economy

e. how goods and services are distributed throughout the world

ANS: C                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: The study and definitions of economics  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

17. Economics is best described as the
- study of choice when scarcity exists
  - study of the production of goods and services
  - theory of consumer behavior
  - science of money
  - art of spending money wisely

ANS: A                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: The study and definitions of economics  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

18. Michigan has an abundant supply of fresh water. However, an economist would consider it a scarce resource because
- water is necessary for humans' physical survival
  - pollution will eventually destroy all life in the Great Lakes
  - water is limited relative to people's unlimited wants
  - water commands a very high price
  - nature can destroy water as well as create it

ANS: C                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

19. Economics
- studies human behavior when scarcity exists and choices must be made
  - provides the only reasonable explanation of how people make decisions
  - can accurately explain all human behavior since it is based on the assumption of rationality
  - is better at showing the way things ought to be than the other social sciences are
  - is the only social science that can explain the existence and behavior of public institutions

ANS: A                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: The study and definitions of economics  
TOP: The Economic Problem: Scarce Resources, Unlimited Wants

20. An economist would classify 100 shares of Apple Computer stock as capital.
- True
  - False

ANS: B                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resources

21. Profit is the payment made for land resources.
- True
  - False

ANS: B                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resources

22. A resource is something that

- a. is used to produce goods and services
- b. is provided by nature, not made by society
- c. exists in unlimited quantities
- d. must be produced by a firm
- e. consumes goods and services

ANS: A                      PTS: 1                      DIF: Easy  
LOC: Scarcity, tradeoffs, and opportunity cost

NAT: Analytic  
TOP: Resources

23. Natural resources are
- a. not considered scarce because no one pays for them
  - b. only desired for use in producing other goods
  - c. included in the category of resources called gifts of nature
  - d. available in unlimited quantities
  - e. not considered scarce because they are not produced by society

ANS: C                      PTS: 1                      DIF: Moderate  
LOC: Scarcity, tradeoffs, and opportunity cost

NAT: Analytic  
TOP: Resources

24. In economics, capital is defined as
- a. natural resources, such as water, oil, and iron ore
  - b. the natural, unskilled abilities of people
  - c. human creations used in the production process
  - d. money and other financial assets
  - e. the willingness of business owners to take risks

ANS: C                      PTS: 1                      DIF: Easy  
LOC: Scarcity, tradeoffs, and opportunity cost

NAT: Analytic  
TOP: Resources

25. Which of the following would an economist classify as capital?
- a. 100 shares of Microsoft stock
  - b. a \$50 bill
  - c. a credit card
  - d. a lawyer's personal computer
  - e. a bauxite mine in Jamaica

ANS: D                      PTS: 1                      DIF: Easy  
LOC: Scarcity, tradeoffs, and opportunity cost

NAT: Analytic  
TOP: Resources

26. Economists classify all of the following as capital, except one. Which one is *not* capital?
- a. a \$20 bill in a firm's petty cash drawer
  - b. the building where our economics class meets
  - c. a plumber's wrench
  - d. a railroad car
  - e. a factory

ANS: A                      PTS: 1                      DIF: Moderate  
LOC: Scarcity, tradeoffs, and opportunity cost

NAT: Analytic  
TOP: Resources

27. When economists refer to capital, they might mean
- a. money
  - b. human skills used in production
  - c. stocks
  - d. bonds
  - e. bank loans

ANS: B                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resources

28. Which of the following is an example of capital?
- a. pizza ovens
  - b. bulldozers
  - c. a college education
  - d. carpentry skills
  - e. all of the above

ANS: E                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resources

29. The respective payments for the resources of natural resources, labor, capital, and entrepreneurial ability are
- a. interest, wages, profit, and rent
  - b. profit, rent, interest, and wages
  - c. rent, wages, profit, and interest
  - d. interest, profit, wages, and rent
  - e. rent, wages, interest, and profit

ANS: E                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resources

30. An entrepreneur
- a. always makes a profit
  - b. generally avoids risky situations
  - c. claims the residual (i.e., whatever is left over) after other resource suppliers are compensated
  - d. is a parasite that benefits by not paying other resources for their services
  - e. is the manager who runs an enterprise and keeps the customers happy

ANS: C                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resources

31. If a business produces and sells only one unit of a good, its profit would be the
- a. price received for the good
  - b. price of the product minus the cost of the resources used to produce the product
  - c. return paid to the firm's bank on its outstanding loans
  - d. price of the product minus the wages paid for the labor used to produce it
  - e. wages paid for the labor used to produce the product minus the price

ANS: B                    PTS: 1                    DIF: Hard                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resources

32. Because resources are scarce,
- a. opportunity costs are zero
  - b. people must make choices among alternatives
  - c. all human wants and desires can be satisfied
  - d. resource prices are fixed
  - e. commodities are free

ANS: B                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: The study and definitions of economics                    TOP: Resources

33. Resources are divided into the following broad categories:
- people, money, and machines
  - saving, spending, investment, and capital
  - human, technological, and government
  - natural resources, labor, capital, and entrepreneurial ability
  - free, scarce, abundant, and unlimited

ANS: D                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Resources

34. "Natural resources" refers
- bodies of water
  - trees
  - oil reserves
  - minerals
  - All of the answers are correct.

ANS: E                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Resources

35. In economics, "capital" refers to
- money
  - stocks, bonds, and other financial assets
  - the seat of government
  - machines, buildings, tools, and knowledge
  - net worth (assets minus liabilities)

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Resources

36. An entrepreneur is a(n)
- individual who has much education
  - organizer who seeks profitable opportunities and is willing to accept risks
  - business organization that uses inputs to produce output
  - administrator who runs an enterprise without accepting any risk of financial loss
  - depot or storehouse for commercial products

ANS: B                      PTS: 1                      DIF: Hard                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Resources

37. Resources are used only in the production of goods, not services.
- True
  - False

ANS: B                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics                      TOP: Goods and Services

38. The difference between a good and a service is that
- a good helps satisfy unlimited wants; a service does not
  - a service helps satisfy unlimited wants; a good does not
  - a services is available in unlimited quantities; a good is not
  - a good is available in unlimited quantities; a service is not
  - a good is tangible; a service is not

ANS: E                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics                      TOP: Goods and Services



39. Which of the following is a service?
- anything that is scarce and that satisfies unlimited human wants
  - a thing for which people pay money
  - an intangible activity that satisfies human wants
  - any output produced by a service-sector industry, such as fast food
  - something less desirable than a good

ANS: C                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics                      TOP: Goods and Services

40. Goods and services are scarce because
- people are greedy
  - they are produced using scarce resources
  - firms keep production low in order to earn higher profits
  - they are produced by firms that seeks profits
  - government wants to maintain its power over the economy

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Goods and Services

41. The expression "There's no such thing as a free lunch" means that
- services may be free, but goods are never free
  - even if it has a price of zero, a good or service has a cost
  - charitable organizations should not serve free lunches to the poor
  - poor people are really the ones who pay for their allegedly free lunches
  - someone has to pay the market price for a good or service

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Goods and Services

42. The expression "There's no such thing as a free lunch" means
- that even if the lunch is free, we pay for it in extra calories
  - that resources used up in producing the lunch are not available to satisfy other wants
  - the same thing as "The best things in life are free"
  - you can eat only if you work first
  - neither sea water nor air is free

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Goods and Services

43. A good or service is considered scarce if
- any quantity of it can be consumed at a zero price
  - the amount people desire exceeds the amount available at a zero price
  - the amount people desire exceeds the amount available at any price
  - the amount people desire is less than the amount available at any price
  - the amount people desire is less than the amount available at a zero price

ANS: B                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Goods and Services

44. Unlike a "service," a "good"
- is desirable
  - uses resources to satisfy wants
  - is physical and tangible

- d. is abundant and free
- e. is a resource

ANS: C                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics                      TOP: Goods and Services

45. Goods and services are exchanged in
- a. product markets
  - b. resource markets
  - c. inventory markets
  - d. classified markets
  - e. government markets

ANS: A                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Markets, market failure, and externalities                      TOP: Economic Decision Makers

46. Considering both product markets and resource markets, most economic decision makers participate in the economy as both buyers and sellers.
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Markets, market failure, and externalities                      TOP: Economic Decision Makers

47. Which of the four types of decision makers in the U.S. economy plays the largest role?
- a. U.S. firms and government because they produce the products that households consume
  - b. U.S. households because they supply goods to the product markets and are demanders in resource markets
  - c. foreign households, firms, and governments because they greatly outnumber those of the United States
  - d. U.S. firms and government because they create employment for domestic households and produce goods and services
  - e. U.S. households, as buyers in product markets and sellers in resource markets

ANS: E                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Markets, market failure, and externalities                      TOP: Economic Decision Makers

48. A market
- a. is often a physical place
  - b. facilitates exchanges between buyers and sellers
  - c. typically involves monetary transactions
  - d. might not have well-defined geographical limits
  - e. all of the above

ANS: E                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Markets, market failure, and externalities                      TOP: Economic Decision Makers

49. Choices made by economic decision makers
- a. are government decisions only
  - b. are the primary focus of economics
  - c. are not important in economic analysis
  - d. occur infrequently
  - e. do not involve ordinary citizens

ANS: B                      PTS: 1                      DIF: Easy                      NAT: Reflective Thinking  
LOC: Markets, market failure, and externalities                      TOP: Economic Decision Makers

50. Households
- own and sell resources
  - play a very minor role in the economy
  - supply goods and services
  - are the largest purchasers of resources
  - none of the above

ANS: A                      PTS: 1                      DIF: Easy

NAT: Analytic

LOC: Markets, market failure, and externalities

TOP: Economic Decision Makers

51. The labor market is an example of a
- government market
  - classified market
  - communication market
  - resource market
  - product market

ANS: D                      PTS: 1                      DIF: Easy

NAT: Analytic

LOC: Markets, market failure, and externalities

TOP: Economic Decision Makers

52. A rational individual would make charitable contributions only if such contributions receive favorable tax treatment.
- True
  - False

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking

LOC: Marginal costs & benefits                      TOP: Rational Self-Interest

53. The assumption of rational self-interest does not rule out the possibility of concern for other individuals.
- True
  - False

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Analytic

LOC: Marginal costs & benefits                      TOP: Rational Self-Interest

54. The assumption that individuals act rationally implies that
- people think only of themselves and disregard the well-being of others
  - people undertake all those activities that yield benefits to themselves
  - people only consider the costs of an activity to decide whether it is worthwhile
  - the greater the cost of a charitable deed to a benefactor, the more likely he or she is to perform that deed
  - people implicitly calculate the costs and benefits of an activity to decide if it is worthwhile

ANS: E                      PTS: 1                      DIF: Moderate                      NAT: Analytic

LOC: Marginal costs & benefits                      TOP: Rational Self-Interest

55. Rational choice by an individual implies
- the use of some mathematical model when solving a problem
  - making decisions aimed at achieving some predetermined goal
  - that only monetary costs and benefits are weighed
  - that an individual will never regret any action taken
  - that scarcity can be eliminated for that individual

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking

LOC: Marginal costs & benefits

TOP: Rational Self-Interest

56. Economists believe that
- people who choose to promote the interests of others cannot be acting rationally in their own self-interest
  - people show concern only for those whom they know personally
  - charitable donations would disappear if tax deductions for charitable giving were eliminated
  - the notion of self-interest rules out concern for others
  - concern for the welfare of others is consistent with the concept of self-interest

ANS: E

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Marginal costs & benefits

TOP: Rational Self-Interest

57. It is always rational to acquire more information before making a decision.
- True
  - False

ANS: B

PTS: 1

DIF: Hard

NAT: Reflective Thinking

LOC: Marginal costs & benefits

TOP: Choice Requires Time and Information

58. Consumers need information to make good choices. Which of the following is correct regarding this information?
- Advertising is always harmful to consumers.
  - Information is scarce and therefore valuable.
  - Brand names offer no informational content.
  - Acquiring more information is always rational.
  - Marginal analysis does not apply to the acquisition of information.

ANS: B

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Marginal costs & benefits

TOP: Choice Requires Time and Information

59. Economists generally believe that
- buyers and sellers have all the information they can use
  - additional information is costly to acquire
  - decision makers have complete knowledge of all the alternatives available
  - economic decisions result from random behavior
  - decision makers never make mistakes

ANS: B

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Marginal costs & benefits

TOP: Choice Requires Time and Information

60. Rational economic decision makers will make a change only if
- the change is free of risk
  - there are no costs involved
  - their expectations are correct
  - there is no uncertainty about the results of the change
  - the expected marginal benefit exceeds expected marginal cost

ANS: E

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Marginal costs & benefits

TOP: Choice Requires Time and Information

61. Economic information
- is usually scarce and costly to acquire
  - is usually available free to any decision maker

- c. is usually not required for rational decision making
- d. must be complete before any decision is made
- e. is usually useful only to governments

ANS: A                      PTS: 1                      DIF: Moderate              NAT: Analytic  
LOC: Marginal costs & benefits              TOP: Choice Requires Time and Information

62. In economics, the term "marginal" usually refers to
- a. a small change in an economic variable
  - b. a low-quality product or resource
  - c. an unimportant and irrelevant economic variable
  - d. an all-or-nothing economic decision
  - e. a footnote or minor point

ANS: A                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Marginal costs & benefits              TOP: Economic Analysis Is Marginal Analysis

63. A marginal adjustment only refers to a minor change.
- a. True
  - b. False

ANS: B                      PTS: 1                      DIF: Moderate              NAT: Analytic  
LOC: Marginal costs & benefits              TOP: Economic Analysis Is Marginal Analysis

64. A rational decision maker compares the expected marginal cost to the expected marginal benefit of any activity.
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Hard                      NAT: Analytic  
LOC: Marginal costs & benefits              TOP: Economic Analysis Is Marginal Analysis

65. Most real economic choices involve small (or marginal) changes, rather than all-or-nothing decisions.
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Moderate              NAT: Analytic  
LOC: Marginal costs & benefits              TOP: Economic Analysis Is Marginal Analysis

66. Economic decision makers will continue to acquire information only as long as the expected additional benefit exceeds the expected additional cost of the information.
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Moderate              NAT: Analytic  
LOC: Marginal costs & benefits              TOP: Economic Analysis Is Marginal Analysis

67. When economic choice involves an adjustment to an existing situation, marginal analysis
- a. has no practical applications or real-world uses
  - b. eliminates incorrect decisions and bad choices
  - c. involves comparing the additional costs and additional benefits of an activity before deciding
  - d. involves examining only the total costs and total benefits of an activity before deciding
  - e. none of the above

ANS: C                      PTS: 1                      DIF: Moderate              NAT: Analytic

LOC: Marginal costs & benefits

TOP: Economic Analysis Is Marginal Analysis

68. Economists believe that people respond in a predictable way to changes in costs and benefits. The term that best describes this phenomenon is
- opportunity cost
  - scarcity
  - innovation
  - marginal analysis
  - other things equal (or *ceteris paribus*)

ANS: D

PTS: 1

DIF: Easy

NAT: Reflective Thinking

LOC: Marginal costs & benefits

TOP: Economic Analysis Is Marginal Analysis

69. When economists say that people act as rational decision makers, that means
- they gather all relevant information before making their purchases
  - once a pattern of behavior has been established, people tend to become set in their ways
  - people respond in predictable ways to changes in costs and benefits
  - people rarely make errors when they are permitted to make transactions
  - once made, decisions are never reversed

ANS: C

PTS: 1

DIF: Hard

NAT: Reflective Thinking

LOC: Marginal costs & benefits

TOP: Economic Analysis Is Marginal Analysis

70. In economics, marginal means
- incremental or decremental
  - unimportant
  - level or size
  - a border-line situation
  - a bad alternative

ANS: A

PTS: 1

DIF: Easy

NAT: Analytic

LOC: Marginal costs & benefits

TOP: Economic Analysis Is Marginal Analysis

71. To say that people make marginal decisions means that
- they usually wait until the last minute before making a decision to buy
  - they weigh the additional costs and additional benefits of various activities before they make a decision
  - most people just barely get by on the incomes they earn and live from day to day on the very edge of subsistence
  - given a choice, most people would prefer to make their own decisions concerning the things that affect their lives
  - they consider the total cost and benefit of various activities before they make a purchase

ANS: B

PTS: 1

DIF: Easy

NAT: Analytic

LOC: Marginal costs & benefits

TOP: Economic Analysis Is Marginal Analysis

72. A rational decision maker will take only those actions for which the expected marginal benefit
- is positive
  - is at its maximum level
  - is greater than or equal to the expected marginal cost
  - is less than the expected marginal cost
  - exactly equals the expected marginal cost

ANS: C

PTS: 1

DIF: Moderate

NAT: Analytic

LOC: Marginal costs & benefits

TOP: Economic Analysis Is Marginal Analysis

73. You currently subscribe to two magazines and are trying to decide whether you should subscribe to a third. What should determine your decision, if you are rational?
- the total cost of the magazines compared to the total satisfaction you would receive
  - the total amount of satisfaction you would get from the magazines
  - the enjoyment you would get from the third magazine
  - the cost of the third magazine, including the time it takes to read it
  - the cost of the third magazine compared to the additional enjoyment you would get from it

ANS: E                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: Marginal costs & benefits                      TOP: Economic Analysis Is Marginal Analysis

74. The behavior of the entertainment industry in Detroit is a microeconomic topic.
- True
  - False

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: The study and definitions of economics  
TOP: Microeconomics and Macroeconomics

75. Microeconomics is the study of
- marginal or inferior products
  - the economic behavior of individual decision makers
  - the behavior of the economy as a whole
  - how to use the fewest natural resources to produce goods and services
  - government's role as a producer in the economy

ANS: B                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics  
TOP: Microeconomics and Macroeconomics

76. Macroeconomics is the study of
- the behavior of large firms in the marketplace
  - the economic behavior of individual decision makers
  - the behavior of the economy as a whole
  - how to use the fewest natural resources to produce goods and services
  - government's role as a stabilizing influence on the economy

ANS: C                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics  
TOP: Microeconomics and Macroeconomics

77. The economic behavior of individual decision makers and the determination of price and output in specific markets are both studied in
- microeconomics
  - macroeconomics
  - positive economics
  - normative economics
  - disequilibrium economics

ANS: A                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics  
TOP: Microeconomics and Macroeconomics

78. In macroeconomics, we analyze

- a. all of the following
- b. the overall performance of the economy as a whole
- c. arrangements through which specific products are exchanged
- d. influences on the decision making of particular households
- e. the factors that affect the decisions of individual firms

ANS: B                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: The study and definitions of economics  
TOP: Microeconomics and Macroeconomics

79. An economic model will produce poor predictions if it includes unrealistic assumptions.
- a. True
  - b. False

ANS: B                    PTS: 1                    DIF: Moderate                    NAT: Reflective Thinking  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

80. Most economists consider a theory a good one if it predicts well.
- a. True
  - b. False

ANS: A                    PTS: 1                    DIF: Hard                    NAT: Reflective Thinking  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

81. Theory in economics
- a. involves some simplification of reality
  - b. bears no relation to reality
  - c. approaches reality in all its complexity
  - d. involves so much distortion of reality that it is worthless
  - e. focuses on the unique aspects of each situation

ANS: A                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

82. Theory seeks to
- a. simplify a complex reality
  - b. confront reality in all its complexity by focusing on the unique aspects of each phenomenon
  - c. explain phenomena without predicting them
  - d. predict phenomena without explaining them
  - e. distort reality in order to improve forecasting ability

ANS: A                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

83. An economic model
- a. always has a mathematical foundation
  - b. can never be proven wrong
  - c. can be constructed for an individual economic unit but not for the economy as a whole
  - d. is a simplification of the real world
  - e. can be constructed for the economy as a whole but not for an individual economic unit



ANS: D                   PTS: 1                   DIF: Moderate           NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

84. An economic model
- omits critical elements
  - must be presented in mathematical terms
  - simplifies reality in order to focus on its essential elements
  - can never be proven wrong if its assumptions are realistic
  - produces poor predictions if it includes an unrealistic assumption

ANS: C                   PTS: 1                   DIF: Moderate           NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

85. Economic theories are
- useful because they are as exact as theories in the physical sciences
  - useless because they are based on abstractions
  - useful because they allow us to make predictions
  - too complex to understand because they include all of reality
  - useful in predicting events only if their assumptions are realistic

ANS: C                   PTS: 1                   DIF: Moderate           NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

86. A good economic theory
- has realistic assumptions
  - contains as much detail as possible
  - cannot be proven false
  - predicts well
  - can only be presented in mathematical terms

ANS: D                   PTS: 1                   DIF: Moderate           NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

87. The basic purpose of economic models is to
- construct simplifying assumptions about the real world
  - explain reality in all its complexity
  - collect empirical data to support the facts
  - construct situations where controlled experiments can be carried out
  - provide explanations for, and predictions of, economic events

ANS: E                   PTS: 1                   DIF: Hard               NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

88. When constructing an economic model, economists
- rely mostly on their own value judgments and ignore the far more complex world of facts
  - always try to duplicate reality by including all available information
  - use assumptions that are true for the individual but never true for the whole economy
  - must rely on simplifying assumptions that abstract from the complexity of the real world
  - are primarily concerned with making realistic assumptions

ANS: D                    PTS: 1                    DIF: Hard                    NAT: Reflective Thinking  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

89. All economic models must involve simplifications because
- economists would be unable to command high salaries if their models were so simple that anyone could understand them
  - human behavior is very erratic and unpredictable
  - reality is too complex to understand in its entirety, so we must reduce it to a level that we can understand
  - they always try to duplicate all possible information and cover all possible variables that might influence decision making
  - we must rely on value judgments and ignore reality

ANS: C                    PTS: 1                    DIF: Hard                    NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

90. Economics employs a scientific methodology. In part, this means that
- all economic laws have been proven true by laboratory tests
  - there is a single economic theory accepted by all economists
  - economic hypotheses are tested to determine their validity
  - personal values never enter into economic policy recommendations
  - assumptions are not necessary in economic science

ANS: C                    PTS: 1                    DIF: Hard                    NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: The Science of Economic Analysis

91. An economic model is useful if it
- includes every detail of reality
  - involves no unproven assumptions
  - is expressed in equations
  - makes accurate predictions
  - is simple enough to be understood by a child

ANS: D                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Understanding and applying economic models                    TOP: The Role of Theory

92. A model that sometimes makes incorrect predictions may be used by economic decision makers
- under no circumstances
  - only if its assumptions are detailed and realistic
  - if it is mathematical and computerized
  - if it is simple enough for a child to understand
  - until a better model is developed

ANS: E                    PTS: 1                    DIF: Hard                    NAT: Reflective Thinking  
LOC: Understanding and applying economic models                    TOP: The Role of Theory

93. Economic theory
- expresses normative values
  - invents imaginative and interesting stories
  - predicts the behavior of a specific economic decision maker after an economic change
  - predicts the average behavior of a group of similar economic decision makers after an economic change

e. uses only perfect and complete information

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: The Role of Theory

94. *Ceteris paribus* means "other things constant."

- a. True
- b. False

ANS: A                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

95. Which of the following is an accurate list, in order, of the steps of the scientific process?

- a. define variables; state assumptions; form a hypothesis; test
- b. state assumptions; define variables; form a hypothesis; test
- c. identify variables; state assumptions; test; form a hypothesis
- d. identify variables; form "other things equal" assumptions; form behavioral assumptions; test
- e. form "other things equal" assumptions; form behavioral assumptions; form hypothesis; test

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

96. The other-things-constant assumption

- a. allows the economist to make useful predictions
- b. is a prediction
- c. applies only to consumers' decisions, not to those of firms
- d. forces the economist to ignore reality, where things are constantly changing
- e. implies rational self-interest on the part of all economic actors

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

97. In an economic model of consumer behavior, rational self-interest would likely be

- a. a key variable
- b. the hypothesis of the model
- c. a behavioral assumption
- d. a prediction of the model
- e. a method of testing the model

ANS: C                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

98. Behavioral assumptions

- a. make economic models more complex than if these assumptions were removed
- b. pertain only to consumers
- c. hold all other things constant
- d. are ways to test a hypothesis
- e. describe how individuals are expected to behave

ANS: E                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

99. A hypothesis is

- a. an assumption about behavior

- b. a prediction of what will occur given certain assumptions
- c. a prediction of what will occur regardless of assumptions
- d. a forecast of future events
- e. useful only if the assumptions are realistic

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

100. Which of the following is *not* a part of the scientific method in economics?

- a. normative statements
- b. comparing predictions to evidence
- c. formulating a hypothesis
- d. a hypothesis
- e. behavioral assumptions

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

101. Which of the following statements about economic methodology is correct?

- a. An economic law is a cause-and-effect relationship that has been verified by a controlled experiment.
- b. The test of a theory's validity is its usefulness in explaining reality.
- c. An economic law is a statement about group behavior that is based on the observed behavior of a single individual.
- d. An economic law, because it is based on probabilities, can only be expected to be true about half the time.
- e. Assumptions are ignored in the development of hypotheses.

ANS: B                      PTS: 1                      DIF: Hard                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

102. The assumption of rational self-interest means that economic decision makers

- a. have no concern for the welfare of others
- b. consider the welfare of others to be more important than their own happiness
- c. know with certainty which choice will have the best result
- d. make reasonable decisions based on their expectations of results
- e. do not make incorrect decisions or bad choices

ANS: D                      PTS: 1                      DIF: Hard                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

103. The scientific method is useful

- a. only in fields of science such as chemistry and physics
- b. for testing the validity of theoretical predictions
- c. for testing the validity of a model's assumptions
- d. when no economic variables can be assumed to be constant
- e. only if a theory has been proven to be true

ANS: B                      PTS: 1                      DIF: Hard                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

104. Economists believe that individuals respond in a predictable way to changes in costs and benefits. The term that best describes this belief is

- a. opportunity cost
- b. demand

- c. supply
- d. scarcity
- e. rational behavior

ANS: E                      PTS: 1                      DIF: Hard                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: The Scientific Method

105. Normative economic statements refer to what should be.
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: Understanding and applying economic models                      TOP: Normative versus Positive

106. "There should be less discrimination against women" is an example of a positive statement.
- a. True
  - b. False

ANS: B                      PTS: 1                      DIF: Easy                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: Normative versus Positive

107. An example of a positive economic statement is, "An increase in the price of a product causes consumers to purchase more of that product."
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Easy                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: Normative versus Positive

108. Which of the following is an example of a positive statement?
- a. Workers with families should be paid at least the minimum wage.
  - b. If crime rates were reduced, the world would be a better place in which to live.
  - c. Marginal tax rates should be reduced for individuals in the highest tax brackets.
  - d. An increase in the price of gasoline will cause a reduction in the amount purchased.
  - e. Corrupt politicians ought to be voted out of office.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: Normative versus Positive

109. Which of the following is a positive statement?
- a. An unemployment rate of 7 percent or higher is a national disgrace.
  - b. Unemployment is a less important problem than inflation.
  - c. When the national unemployment rate is 7 percent, the unemployment rate for inner-city youth is often close to 40 percent.
  - d. Unemployment and inflation are equally important problems.
  - e. An inflation rate of 7 percent is too high.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: Normative versus Positive

110. A normative economic statement
- a. is a hypothesis used to test economic theory
  - b. is a statement of fact
  - c. is a statement of what ought to be, not what is
  - d. indicates what will occur if certain assumptions are true
  - e. enables economists to test hypotheses

ANS: C                    PTS: 1                    DIF: Easy                    NAT: Reflective Thinking  
LOC: Understanding and applying economic models                    TOP: Normative versus Positive

111. Which of the following is a normative statement?
- The U.S. rate of unemployment was lower in 2004 than it was in 1994.
  - Savings accounts earn interest, whereas checking accounts do not.
  - Congress must recognize that the growing national debt is the most serious problem that the country faces.
  - The unemployment rate increases when the percentage of the labor force without jobs increases.
  - The unemployment rate among teenagers is higher than the rate among adults.

ANS: C                    PTS: 1                    DIF: Moderate                    NAT: Reflective Thinking  
LOC: Understanding and applying economic models                    TOP: Normative versus Positive

112. Which of the following is an example of a normative statement?
- The moon is made of green cheese.
  - Women should earn the same income as men.
  - When the price of a good rises, people will buy more of it.
  - The more time you spend studying, the higher your economics test scores will be.
  - The more time you spend studying for chemistry, the higher your economics test score will be.

ANS: B                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Understanding and applying economic models                    TOP: Normative versus Positive

113. Which of the following is an example of a normative statement?
- If the money supply falls, interest rates will rise.
  - Teenage unemployment would be lower if there were no minimum wage.
  - The quantity of shirts sold increases as the price of shirts decreases.
  - The federal government's total spending should be reduced.
  - If interest rates go up, then construction activity will fall.

ANS: D                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Understanding and applying economic models                    TOP: Normative versus Positive

114. "There should be less discrimination against the elderly." This is an example of a
- normative statement
  - positive statement
  - forecast
  - hypothesis
  - prediction

ANS: A                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Understanding and applying economic models                    TOP: Normative versus Positive

115. The difference between a positive economic statement and a normative statement is that
- a positive statement must be true; a normative statement is often not true
  - a normative statement must be true; a positive statement is often not true
  - a positive statement can be verified; a normative statement cannot
  - a normative statements can be verified; a positive statement cannot
  - a positive economic statement is a moral judgment; a normative economic statement is not a moral judgment

ANS: C                    PTS: 1                    DIF: Moderate                    NAT: Analytic

LOC: Understanding and applying economic models                      TOP: Normative versus Positive

116. The difference between positive economic statements and normative economic statements is that
- both c and e are true
  - positive statements are based on opinion while normative statements are based on fact
  - positive statements are true and normative statements are often false
  - positive statements are often false and normative statements are true
  - positive statements are based on fact while normative statements are based on opinion

ANS: E                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Understanding and applying economic models                      TOP: Normative versus Positive

117. Economists often focus on average behavior because it is easier to predict.
- True
  - False

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models                      TOP: Predicting Average Behavior

118. Economic theory allows us to predict the behavior of a specific person or firm.
- True
  - False

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Understanding and applying economic models                      TOP: Predicting Average Behavior

119. The association-causation fallacy is the error of assuming that what is true for one member of a group must be true for the group.
- True
  - False

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

120. The fallacy of composition is the error of believing a cause-effect relationship exists between two events that are associated in time.
- True
  - False

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

121. One problem with rent controls is that policy makers often ignore its secondary effects.
- True
  - False

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

122. Secondary effects are consequences of economic actions that develop slowly over time as people react to events.
- True
  - False

ANS: A                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

123. Your friend notices that U.S. auto production and U.S. population growth have moved together over several decades. He reasons that one way to slow population growth is for the government to order the auto makers to cut back on production. You gently point out to him that he
- is correct only when the economy is in a recession
  - has mistakenly inferred causation from observed correlation
  - has ignored secondary effects
  - has committed the fallacy of composition
  - is correct only when the United States enjoys economic growth

ANS: B                    PTS: 1                    DIF: Moderate                    NAT: Reflective Thinking  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

124. One might commit the fallacy of composition by concluding that
- statements that are true during prosperity are necessarily true during depression
  - what is good for the individual is necessarily good for the group
  - an event that precedes another is necessarily the cause of the latter
  - intentions need not coincide with actions
  - the composition of a complex product is not revealed by its exterior appearance

ANS: B                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

125. Which of the following is *not* an example of the fallacy of composition?
- If I can get to work fastest by taking the interstate, so can everyone else.
  - If you can only get away from it all by going to Fairbanks, everyone who needs to get away should go to Fairbanks.
  - If the quickest way to get off a sinking ship is to run to the nearest lifeboat, all the passengers should do this.
  - If the best TV reception can be gotten with a Couch Potato antenna, then everyone should have a Couch Potato antenna.
  - If I can get a better view by standing up at the baseball game, everyone gets a better view by standing up.

ANS: D                    PTS: 1                    DIF: Easy                    NAT: Reflective Thinking  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

126. A fallacy of composition is to assume that
- you can determine the composition of a complex product just by examining its exterior properties
  - consumer durable goods today do not last as long as they did a generation ago
  - any mistakes made in producing a product using an assembly line technique will lead to a compounding of errors as the product moves down the line
  - what is true for any individual component in a group is true for the group as a whole
  - when I was young I liked cotton candy, but now that I'm older I no longer like it

ANS: D                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Understanding and applying economic models



TOP: Some Pitfalls of Faulty Economic Analysis

127. One of the difficulties with an economic policy such as rent control is that
- politicians do not consider its secondary effects
  - economists disagree about the impacts of the policy
  - it is difficult to enforce antidiscrimination laws in the rental housing market
  - it makes landlords wealthy at the expense of renters
  - pressure from landlords resulted in its repeal in many cities

ANS: A                      PTS: 1                      DIF: Hard                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

128. Someone who committed the association-is-causation fallacy might conclude that
- event B, which follows event A, was caused by the event A
  - event B, which follows event A, was not necessarily caused by event A
  - the simplest model is the best predictor
  - what is true for the individual is also true for the group
  - what is true for the individual is not necessarily true for the group

ANS: A                      PTS: 1                      DIF: Hard                      NAT: Reflective Thinking  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

129. Someone who commits the fallacy of composition is likely to assume that
- the simplest model is the best predictor
  - event B, which follows event A, was caused by event A
  - event B, which follows event A, was not necessarily caused by event A
  - what is true for the individual is also true for the group
  - what is true for the individual is not necessarily true for the group

ANS: D                      PTS: 1                      DIF: Hard                      NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: Some Pitfalls of Faulty Economic Analysis

130. As a scientist, an economist's main professional objective is to become wealthy.
- True
  - False

ANS: B                      PTS: 1                      DIF: Easy                      NAT: Analytic  
LOC: The study and definitions of economics  
TOP: If Economists Are So Smart, Why Aren't They Rich?

131. As a scientist, an economist's main professional objective is to
- become wealthy
  - control the government's decision-making processes
  - understand how the economy works
  - discover which stock prices will decrease
  - understand the psychology of participants in markets

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: Reflective Thinking  
LOC: The study and definitions of economics  
TOP: If Economists Are So Smart, Why Aren't They Rich?

132. Which of the following is the fundamental resource that is the basis of labor?

- a. capital
- b. natural resources
- c. time
- d. money
- e. entrepreneurial ability

ANS: C                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resources

133. Which of the following is true about entrepreneurs?
- a. They have the talent required to dream up a new product or find a better way to produce an existing one.
  - b. They are rewarded by profits.
  - c. They sometimes suffer losses.
  - d. They benefit from what's left over after paying other resource suppliers.
  - e. All of the answers are correct.

ANS: E                    PTS: 1                    DIF: Moderate                    NAT: Analytic  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resources

134. In a circular-flow model, households supply all of the following except
- a. labor
  - b. goods and services
  - c. capital
  - d. entrepreneurial ability
  - e. natural resources

ANS: B                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Understanding and applying economic models  
TOP: A Simple Circular-Flow Model

135. Step one in the scientific method is
- a. formulate a hypothesis
  - b. reflect an opinion
  - c. specify assumptions
  - d. identify the question and define relevant variables
  - e. test the hypothesis

ANS: D                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Understanding and applying economic models                    TOP: The Scientific Method

136. Most of the disagreement among economists involves normative debates.
- a. True
  - b. False

ANS: A                    PTS: 1                    DIF: Easy                    NAT: Analytic  
LOC: Understanding and applying economic models                    TOP: Normative versus Positive

137. To tell a compelling story, an economist relies on
- a. case studies
  - b. anecdotes
  - c. irrelevant data
  - d. anecdotes and irrelevant data
  - e. case studies and anecdotes

ANS: E                    PTS: 1                    DIF: Moderate                    NAT: Analytic

LOC: Understanding and applying economic models

TOP: Economists Tell Stories